

REPORT OF EXAMINATION
OF THE
HYUNDAI MARINE AND FIRE INSURANCE
COMPANY, LTD. (U.S. BRANCH)
AS OF
DECEMBER 31, 2006

Participating State
and Zone:

California

Filed October 22, 2007

TABLE OF CONTENTS

	<u>PAGE</u>
SCOPE OF EXAMINATION.....	1
MANAGEMENT AND CONTROL:	2
Management and Services Agreements	5
Trust Agreement	6
TERRITORY AND PLAN OF OPERATION	7
REINSURANCE:	8
Assumed.....	8
Ceded	8
ACCOUNTS AND RECORDS	10
FINANCIAL STATEMENTS:	11
Statement of Financial Condition as of December 31, 2006	12
Underwriting and Investment Exhibit for the Year Ended December 31, 2006.....	13
Reconciliation of Surplus as Regards Policyholders from December 31, 2003 through December 31, 2006.....	14
Statement of Trusteed Surplus in the United States for the Year Ended December 31, 2006.....	15
COMMENTS ON FINANCIAL STATEMENT ITEMS:.....	16
Losses and Loss Adjustment Expenses	16
SUMMARY OF COMMENTS AND RECOMMENDATIONS:.....	16
Current Report of Examination.....	16
Previous Report of Examination	16
ACKNOWLEDGEMENT	17

Los Angeles, California
August 30, 2007

Honorable Alfred W. Gross
Chairman of the NAIC Financial
Condition Subcommittee
Commissioner of Insurance
Virginia Bureau of Insurance
Richmond, Virginia

Honorable Kent Michie
Secretary, Zone IV-Western
Commissioner of Insurance
Department of Insurance, State of Utah
Salt Lake City, Utah

Honorable Steve Poizner
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Chairman, Secretary and Commissioner:

Pursuant to your instructions, an examination was made of the

HYUNDAI MARINE AND FIRE INSURANCE COMPANY, LTD.
(U.S. BRANCH)

(hereinafter also referred to as the U.S. Branch) at the offices of its U.S. manager, Citadel Risk Management, Inc., located at 600 Valley Road, Wayne, New Jersey, 07470. The statutory home office of the U.S. Branch is located at 300 Sylvan Avenue, Englewood Cliffs, New Jersey 07632. The Hyundai Marine and Fire Insurance Company, Ltd. is domiciled in the Republic of Korea.

SCOPE OF EXAMINATION

The previous examination of the U.S. Branch was made as of December 31, 2003. This examination covers the period from January 1, 2004 through December 31, 2006. The examination was made pursuant to the National Association of Insurance Commissioners' plan of examination. The examination included a review of the U.S. Branch's practices and procedures, an examination of management records, tests and analyses of detailed transactions within the examination period, and

an evaluation of the assets and a determination of liabilities as of December 31, 2006, as deemed necessary under the circumstances.

In addition to those items specifically commented upon in this report, other phases of the U.S. Branch's operations were reviewed including the following areas that require no further comment: corporate records; fidelity bonds and other insurance; officers', employees' and agents' welfare and pension plans; growth of company; business in force by states; and sales and advertising.

COMPANY HISTORY

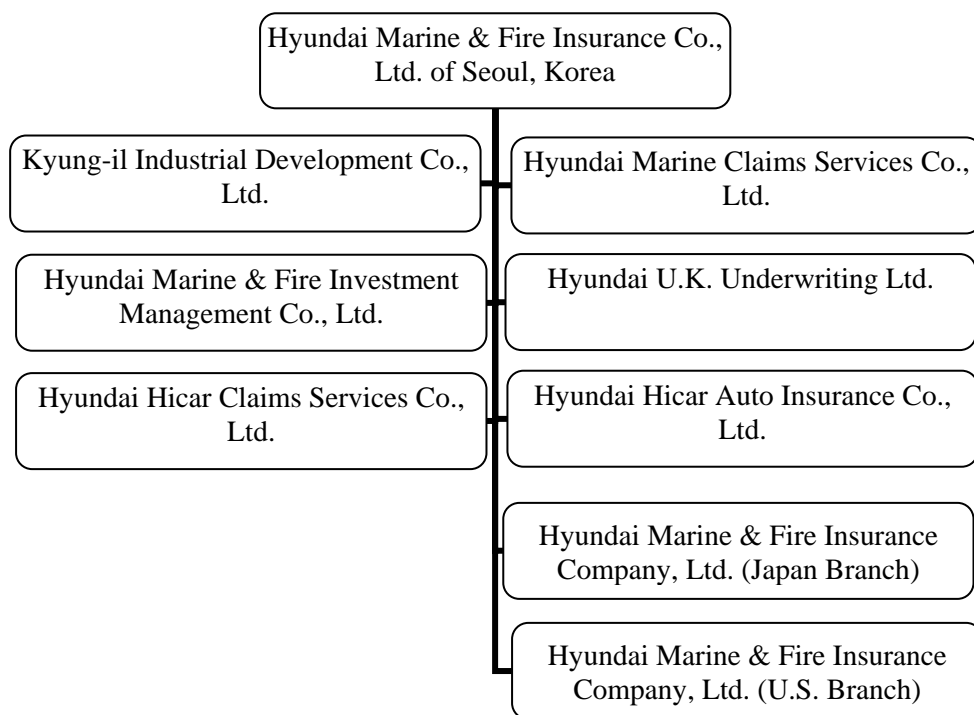
Hyundai Marine and Fire Insurance Company, Ltd. (Company) was incorporated in Seoul, Korea in 1955 and is one of the largest property and casualty insurance companies in Korea. The Company currently has a branch office in Japan and a liaison office in England, through which it provides a broad range of property and casualty insurance products. The Company's port of entry is California for the United States Market. The U.S. Branch of the Company commenced business on December 4, 1992.

The Company made a cash capital contribution of \$6 million in March 2004 to its U.S. Branch.

MANAGEMENT AND CONTROL

The U.S. Branch is 100% owned by Hyundai Marine and Fire Insurance Company, Ltd. of Seoul, South Korea. As of December 31, 2006, the U.S. Branch is managed by Citadel Risk Management, Inc.

The following abridged organizational chart, which is limited to the U.S. Branch's parent along with its subsidiary insurance companies, depicts the U.S. Branch's relationship within the holding company system:



(*) all ownership is 100%.

Management of the Company is vested in a nine-member board of directors elected annually. A listing of the members of the board and principal officers serving on December 31, 2006 follows:

Directors

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Mong-Yoon Chung Seoul, Korea	Chairman of Board of Directors and Officers Hyundai Marine and Fire Insurance Company, Ltd.
Tai-Chang Seo Seoul, Korea	Co-President and Chief Executive Officer Hyundai Marine and Fire Insurance Company, Ltd
Chul-Young Lee Seoul, Korea	Co-President and Chief Executive Officer Management Committee Hyundai Marine and Fire Insurance Company, Ltd
Jong-Sung Kim Seoul, Korea	Director, Member of Audit Committee Hyundai Marine and Fire Insurance Company, Ltd
Dong-Hoon Kim Seoul, Korea	Outside Director, Professor Kook-Min University School of Business
Kyu-Snag Chung Seoul, Korea	Outside Director, Member of Audit Committee Bae, Kim & Lee LLP
Soon-Suk Baek Seoul, Korea	Outside Director, Chief Executive Officer Haagen-Dazs, Korea
Sung-Yeon Park Seoul, Korea	Outside Director, Professor Ewha Women's University
Hyo-Kwan Park Seoul, Korea	Outside Director, Member of Audit Committee Daehan Investment Trust Management Co., Ltd

Principal Officers

<u>Name</u>	<u>Title</u>
Kwi-Young Maeng	President, U.S. Branch
Sang Soon Kim	Treasurer and Secretary
Soo-Ryoun Kim	Senior Vice President, Claim Division
Yong-II Cho	Senior Vice President, General Insurance Underwriting Division
Jung-Keum Yoon	Senior Vice President, Honam District Division
Chang-Kil Lee	Senior Vice President, Commercial Insurance Part 2 Division
One-Key Park	Senior Vice President, Personal Insurance Strategy Division
Jong-Seok Lee	Senior Vice President, Gangbuk District Division
Gab-Soo Kim	Senior Vice President, Kyungin District Division
Dong-Joo Lee	Senior Vice President, Kyungnam District Division
Jung-Suk Chae	Senior Vice President, Marketing District Division
Nam-Jo Shin	Senior Vice President, Claim Division
Duk-Yong Kim	Senior Vice President, Claim Division
Heung-Dong Kim	Senior Vice President, Claim Division
Yong-Choon Yoon	Senior Vice President, Claim Division
In-Soo Park	Senior Vice President, Incorporation Task in China
Yoon-Sun Lee	Senior Vice President, General Affairs and Management Support
Jong-Soo Lee	Senior Vice President, District Management Division
Kyu-Jin Hwang	Senior Vice President, Customer Services Division

Management and Services Agreements

The U.S. Branch's accounting, data processing and other management services were provided by North American Managers, Inc. (NAM), an American International Group affiliate, until February 28, 2004. Total management fees paid to NAM in 2004 were \$30,000. A new management company, Global Resource Managers, Inc. (GRM), an affiliate of the CNA Financial Corporation, provided the above mentioned services from March 1, 2004 to October 31, 2006. Total

management fees paid to GRM were approximately \$200,000, \$203,300 and \$200,000 in 2004, 2005 and 2006, respectively.

On November 1, 2006, the U.S. Branch appointed a new management company, Citadel Risk Management, Inc. (CRMI), a Connecticut corporation. Under the terms of the new management agreement, CRMI has the power of attorney to act exclusively on behalf of the U.S. Branch. CRMI furnishes the U.S. Branch with management services and support services relating to claim administration, corporation legal matters, reinsurance, accounting and administrative support. For these services, the U.S. Branch will pay a monthly fee of \$21,476, from November 1, 2006 through December 31, 2007. The monthly fee for the period January 1, 2008 to December 31, 2008 will be determined after a time allocation study is performed by CRMI for the period November 1, 2006 through December 31, 2007.

Trust Agreement

California Insurance Code (CIC) Sections 1580 and 1581 provide that an alien insurer organized under the laws of a foreign country and transacting business in the State of California is required to maintain in the United States trusteed assets for the security of all its policyholders and creditors within the United States and to appoint a trustee of such assets. In connection with this requirement, the U.S. Branch appointed Bank of New York Western Trust Company as its trustee in the United States.

CIC Section 1582 provides that such trusteed assets shall exceed the liabilities by an amount equal to the minimum amount of the paid-in capital required for admission of incorporated insurers issuing policies on a reserve basis and transacting the same classes of insurance which such alien insurer is transacting in the United States. Based on the classes of business currently being authorized, the U.S. Branch is required to maintain paid-in capital of \$1.9 million. As of December 31, 2006, there was \$3 million on deposit with the trustee.

TERRITORY AND PLAN OF OPERATION

The U.S. Branch is authorized to write fire, marine, plate glass, liability, workers' compensation, common carrier liability, boiler and machinery, burglary, sprinkler, team and vehicle, automobile, aircraft, and miscellaneous lines of business in the states of Alabama, California, Illinois and Oregon. The U.S. Branch has pending applications for certificates of authority in New Jersey and New York.

The U.S. Branch is a direct writer of marine cargo, property and casualty business. In 2006, the Company wrote \$4 million of direct premiums and assumed \$6.6 million. Of the direct premiums written, \$2.7 million or 69% was written in California, \$549,796 (13.7%) was written in Oregon and \$688,870 (17.2%) was written in the remaining states.

The U.S. Branch develops its business from sources primarily throughout the United States, based on contracts with Korean entities. The majority of the U.S. Branch's business is acquired through its participation in facultative and treaty reinsurance with subsidiaries of American International Group. Approximately six brokers are used by the U.S. Branch in connection with the production of its business.

REINSURANCE

Assumed

The U.S. Branch participates in the following assumed reinsurance programs:

Type of Contract	Ceding Insurers	Reinsured's Retention	U. S Branch's Maximum Limits
Lexington Personal Lines Quota Share Treaty	Lexington Insurance Company Landmark Insurance Company Starr Excess Liability Insurance Company Audubon Insurance Company Audubon Indemnity Company	91%	2.5% of 9%, up to \$125,000 for each loss

Personal Lines Quota Share Treaty: In 2006, the U.S. Branch entered into an agreement with Lexington Insurance Company, Ltd., Landmark Insurance Company, Starr Excess Liability Company, Audubon Insurance Company, and Audubon Indemnity Company to provide coverage on homeowner's personal lines of business. This quota share contract covers 9% and 5% of all policies and up to a limited of \$450,000 and \$250,000 for each and every loss in 2006 and 2007, respectively. The U.S. Branch's participation was 2.5% of 9%, or \$125,000 for each and every loss in 2006 and 1.5% of 5%, or \$75,000 for each and every loss in 2007.

In addition to the above-mentioned agreement, the U.S. Branch was also a party to arrangements that provided reinsurance on a facultative basis. These arrangements accounted for approximately \$1.8 million in business assumed in 2006.

Ceded

The U.S. Branch participates in the following ceded reinsurance programs:

Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Maximum Limits
Facultative/Obligatory Quota Share Treaty	Korean Reinsurance Corporation	Various	\$4 million Property (PML) \$3 million Ocean Marine
Facultative Casualty Agreement	Korean Reinsurance Corporation	Various	\$1 million casualty lines per risk
Personal Lines Property Catastrophe -- First Excess of Loss	Renaissance Reinsurance, Ltd	.23% of 2.5% of \$50 million in excess of \$50 million	2.27% of 2.5% of \$50 million in excess of \$50 million
Personal Lines Property Catastrophe -- Second Excess of Loss	Renaissance Reinsurance, Ltd	.23% of 2.5% of \$50 million in excess of \$100 million	2.27% of 2.5% of \$50 million in excess of \$100 million
Personal Lines Property Catastrophe -- Third Excess of Loss	Renaissance Reinsurance, Ltd	.23% of 2.5% of \$100 million in excess of \$150 million	2.27% of 2.5% of \$100 million in excess of \$100 million

Facultative / Obligatory Reinsurance Treaty: The U.S. Branch entered into a facultative obligatory quota share reinsurance treaty with Korean Reinsurance Corporation, Seoul, Korea (Korean Re) which covers its direct and assumed business on all property and ocean marine lines of business. The U.S. Branch's maximum retention ranges from approximately 0% to 86% per risk. The agreement is in effect until terminated by either party with 90 days written notice.

Facultative Casualty Agreement: The U.S. Branch entered into a facultative reinsurance agreement with Korean Re which covers its direct and assumed business on all casualty lines of business. The U.S. Branch's maximum retention ranges from approximately 0% to 86% per risk. The agreement is in effect until terminated by either party with 90 days written notice.

Personal Lines Property Catastrophe Excess of Loss Reinsurance Contract: The U.S. Branch participates in a Personal Lines Property Catastrophe Excess of Loss Reinsurance Contract, the

various layers provide up to 100% of \$200 million on each and every risk in excess of \$50 million. This reinsurance contract protects the U.S. Branch from catastrophe exposures in relation to the 2.5% assumed under the terms of the Lexington Personal Lines Quota Share Treaty. In 2006, the U.S. Branch ceded 2.27% of 2.5% for all three layers.

In September 2006, the U.S. Branch entered into an agreement for commutation of insurance and reinsurance policies related to an automobile warranty program in Canada. The underlying policies provided the insured, Kia Canada, Inc. (Kia), with cover in relation to a defined portion of its legal liabilities under extended warranties which it issues to purchasers of new cars. 100% of the above business was ceded to QBE International Insurance Limited (QBE). The following payments were made to secure the early commutation:

1. QBE paid Kia \$13,596,726 for all outstanding claims and unreported claims and a discharge of the future liability of the U.S. Branch to Kia under the underlying policies.
2. The U.S. Branch paid Kia \$283,828 for return of retained premium.
3. The U.S. Branch paid QBE \$162,288.

ACCOUNTS AND RECORDS

Several accounts examined during the course of this examination did not have adequate audit trails for verification. It was recommended in the previous examination report and it is recommended again that the U.S. Branch maintain documentation to support all financial statement accounts. The documentation should be prepared in sufficient detail as to allow for a full and complete audit trail from the Annual Statement to individual records. In addition, the U.S. Branch's offsetting of credit and debit agents' balances does not meet the requirements of the Statements of Statutory Accounting Principles (SSAP) No. 6. It is recommended that the U.S. Branch comply with SSAP No. 6.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2006

Underwriting and Investment Exhibit for the Year Ended December 31, 2006

Reconciliation of Surplus as Regards Policyholders
from December 31, 2003 through December 31, 2006

Statement of Trusteed Surplus in the United States
for the Year Ended December 31, 2006

Statement of Financial Condition
as of December 31, 2006

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 19,150,762	\$	\$ 19,150,762	
Cash and short-term investments	4,261,889		4,261,889	
Investment income due and accrued	209,277		209,277	
Premiums and considerations:				
Uncollected premiums and agents' balances in the course of collection	648,170	47,079	601,091	
Reinsurance:				
Amounts recoverable from reinsurers	305,761		305,761	
Funds held by or deposited with reinsured companies	76,699		76,699	
Current federal and foreign income tax recoverable	584,491		584,491	
Net deferred tax asset	357,979	280,204	77,775	
Electronic data processing equipment and software	16,195	16,195		
Aggregate write-ins for other than invested assets	<u>37,360</u>		<u>37,360</u>	
Total assets	<u>\$ 25,648,583</u>	<u>\$ 343,478</u>	<u>\$ 25,305,105</u>	
<u>Liabilities, Surplus and Other Funds</u>				
Losses			\$ 4,695,086	(1)
Reinsurance payable on paid losses and loss adjustment expenses			223,714	
Loss adjustment expenses			983,000	(1)
Other expenses			164,621	
Taxes, licenses and fees			25,000	
Unearned premiums			2,523,556	
Ceded reinsurance premiums payable			2,284,278	
Funds held by company under reinsurance treaties			1,868,022	
Remittances and items not allocated			77,987	
Provision for reinsurance			217,191	
Aggregate write-ins for liabilities			<u>3,036</u>	
Total liabilities			13,065,491	
Aggregate write-ins for other than special surplus funds		\$ 3,000,000		
Gross paid-in and contributed surplus		8,100,000		
Unassigned funds (surplus)		<u>1,139,614</u>		
Surplus as regards policyholders			<u>12,239,614</u>	
Total liabilities, surplus and other funds			<u>\$ 25,305,105</u>	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2006

Statement of Income

Underwriting Income

Premiums earned		\$ 4,026,838
Deductions:		
Losses incurred	\$ 1,689,305	
Loss expense incurred	377,151	
Other underwriting expenses incurred	<u>2,491,405</u>	
Total underwriting deductions		<u>4,557,861</u>
Net underwriting loss		(531,023)

Investment Income

Net investment income earned	<u>\$ 1,050,979</u>	
Net investment gain		1,050,979

Other Income

Net gain from agents' or premium balances charged off	\$ 8,852	
Aggregate write-ins for miscellaneous income	<u>59,045</u>	
Total other income		<u>67,897</u>
Net income		<u>\$ 587,853</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2005		\$ 11,563,294
Net income	\$ 587,853	
Change in net deferred income tax	(254,655)	
Change in nonadmitted assets	(10,746)	
Change in provision of reinsurance	<u>353,868</u>	
Change in surplus as regards policyholders		<u>676,320</u>
Surplus as regards policyholders, December 31, 2006		<u>\$ 12,239,614</u>

Reconciliation of Surplus as Regards Policyholders
from December 31, 2003 through December 31, 2006

Surplus as regards policyholders, December 31, 2003, per Examination			\$ 6,313,012
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>	
Net loss	\$	\$ 2,163,704	
Change in net deferred income tax	1,267		
Change in nonadmitted assets	59,229		
Change in provision for reinsurance	2,029,810		
Surplus adjustments: Paid-in	<u>6,000,000</u>		
Totals	<u>\$ 8,090,306</u>	<u>\$ 2,163,704</u>	
Net increase in surplus as regards policyholders for the examination			<u>5,926,602</u>
Surplus as regards policyholders, December 31, 2006, per Examination			<u>\$ 12,239,614</u>

Statement of Trusteed Surplus in the United States
for the Year Ended December 31, 2006

Assets

Deposits with United States trustee:

Bonds	\$ 3,005,703
Accrued investment income	<u>45,501</u>

Total trusted assets \$ 3,051,204

Liabilities, and Trusted Surplus

Liabilities and reserves \$ 13,065,491

Additions to liabilities	
Ceded reinsurance balances payable	<u>\$ 2,284,278</u>

Total additions 2,284,278

Total 15,349,769

Deductions from liabilities

Reinsurance recoverable on paid losses and loss adjustment expenses:

Authorized companies	24,112
Unauthorized companies	281,649

Special State deposits, not exceeding net liabilities carried in this statement on business in each respective state:

Special state deposits	3,310,207
Accrued interest on special state deposits	38,286

Agents' balances or uncollected premiums not more than ninety days past due, not exceeding unearned premium reserves carried thereon 526,695

Unpaid reinsurance premiums receivable, not exceeding losses and loss adjustment expenses due to reinsured:

Authorized companies	74,397
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Aggregate write-ins for other deductions from liabilities 12,953,661

Total deductions 17,209,008

Total adjusted liabilities (1,859,239)

Trusteed surplus 4,910,442

Total \$ 3,051,204

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

The U.S. Branch's reserves for losses and loss adjustment expenses were evaluated by a Casualty Actuary from the California Department of Insurance and were found to be reasonable.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Accounts and Records (Page 10): It is again recommended that the U.S. Branch maintain documentation to support all financial statement accounts. In addition, it is recommended that the U.S. Branch comply with Statements of Statutory Accounting Principles (SSAP) No. 6 as regards the offsetting of credit and debit agents' balances.

Previous Report of Examination

Corporate Records (Page 5): It was recommended that the U.S. Branch implement procedures in its board meetings to ensure compliance with California Insurance Code (CIC) Sections 735 and 1201. The U.S. Branch is now in compliance.

Reinsurance – Treaty Review (Page 9): It was recommended that the U.S. Branch amend its in-force reinsurance agreements upon renewal to comply with CIC Section 922.2, 923 and SSAP No. 6. U.S. Branch is now in compliance.

Accounts and Records (Page 9): It was recommended that the U.S. Branch maintain documentation to support all financial statement accounts. The same recommendation is being made in the current examination report.

ACKNOWLEDGEMENT

The courtesy and cooperation extended by the Company's officers and employees during the course of this examination are hereby acknowledged.

Respectfully submitted,

/S/

Laura Clements, CFE
Examiner-In-Charge
Senior Insurance Examiner (Supervisor)
Department of Insurance
State of California